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to be already the point of view of economists generally; and, if they can so declare their position as to be understood and appreciated by the public, it will do much to bring the economists and the public together.

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THE RELATION OF ABSTINENCE TO INTEREST.

In a former article¹ the writer ventured to present a theory of interest somewhat at variance, though having much in common, with that presented in Professor Böhm-Bawerk's *Positive Theory of Capital*. In the second edition of his *Geschichte und Kritik der Capitalzins-Theorien*,² Professor Böhm-Bawerk has done me the honor of noticing that article, commending some of its points, but criticising what he considers to be its main contention. The writer undertook in that article to maintain, in substance, as follows: (1) That capital must be productive, in order to induce any one to pay interest for the use of it. (2) That there must be some sacrifice involved in its accumulation, or else it would accumulate in such quantities that its productivity would, under a law analogous to the law of diminishing returns from land, approach the vanishing point. (3) That not all saving involves a sacrifice, but that a sacrifice appears only when the saving has been carried so far as to cut so deeply into present enjoyments and to add so little to prospective future enjoyments that, in present estimation, the prospective future enjoyments are less than the surrendered present enjoyments. (4) That saving would normally stop at this point unless a premium in the form of more goods in the future than are now sur-

¹ "The Place of Abstinence in the Theory of Interest," in this *Journal* for October, 1893.

² See also, by the same author, *Recent Literature on Interest*. Translated by William A. Scott, New York, 1903.

rendered—*i.e.*, interest—were offered as an inducement to further saving. (5) That, if all the needs of production were met by such an amount of capital as could be saved without sacrifice, there would be no occasion for the payment of interest. But (6), since the needs of production are not met by this amount of capital, interest must be, and is, paid as an inducement to such further saving as will more fully supply these needs. (7) Therefore, both productivity and abstinence are necessary to an explanation of interest, the productivity of capital being the basis of the demand for it, while the increasing sacrifice of saving larger and larger amounts puts an effective check upon its supply.

Against this general conclusion, Professor Böhm-Bawerk offers the following criticisms:—

(a) First, I have confounded cause and effect, since,

without any question, interest arises from the scarcity of capital, which means the same thing as the scarcity of means of gratification devoted to the future. Carver, on the contrary, comes to the conclusion that it is the result of the abundance of these gratifications, the consequence of a sort of plethora of saving.¹

Now, if there is any conclusion to which I most emphatically did *not* come, it is the one which he here attributes to me, since I really came to the opposite conclusion, which, in the first sentence quoted, he states as the correct one. But, if interest arises from the scarcity of capital, the question naturally arises, Why is capital scarce? My attempt was to show that it was scarce because saving became burdensome before that scarcity could be entirely removed. This involves the same principle as saying that, if gold has value because it is scarce, it is also true that it is scarce because its production becomes burdensome, or expensive, before that scarcity can be removed.

Far from maintaining that interest is due to a plethora of saving, I labored to show that interest had to be offered as an inducement to secure anything like a plethora of

¹Scott's translation, *op. cit.*, p. 60.

saving, or, rather, that interest was the necessary inducement to get people to save more than they otherwise would, in order that the needs of production might be better supplied with capital. I am quite willing to rest my case on this point, believing that a reading of my former article will convince any one that my critic has entirely misapprehended my position. In fact, he has appropriated my exact position, in order to refute what he erroneously interprets as my position.

Again:—

The disposition of people so much to prefer immediate enjoyment to future gratification that they place a future pleasure of the value of 15 on a par with a present one of the value of 10 is indeed the real cause why the goods produced for the future should obtain and maintain a value in excess of their cost. With that disposition, producers cannot be inclined to incur a greater expense than 10 for the acquisition of a product that will in time have a value of 15, but which in their present estimation is worth only 10. The completion of the process of production will yield, after the expiration of a year, a product of the actual value of 15, against which there are costs of production of the value of 10 only. Hence a surplus, or an interest of 5, results. Indeed, this surplus will result, even if Carver's sacrifice of abstinence is not taken into account at all, provided that only such a quantity of goods is devoted to the future as, according to the present estimate, will make a single unit both in the present and the future yield a marginal utility of 10.

And even the removal of that surplus of value by competition would under these circumstances be effectually opposed by the same motive that produced it, without the necessity of the appearance or of the operation of Carver's sacrifice of abstinence. If, for example, by a temporary increase of production the objective value of the product should be diminished from 15 to 14, this 14, so long as the coefficient of undervaluation remains the same, would be thought equal to a smaller amount than 10; namely, to about 9.3.¹

Here I find myself in fundamental disagreement with Professor Böhm-Bawerk, for it seems to me that until that point is reached where saving begins to be actually burdensome, or to involve a positive sacrifice, there is no such undervaluation of future as compared with present goods.

¹ Scott's translation, *op. cit.*, pp. 57-58.

Until that point is reached, producers might very easily be inclined to incur a greater expense than 15 for the acquisition of a product which will in time have a value of less than 15. Under these conditions a plough which will add ten bushels of wheat to a man's income for a period of ten years would be worth, in present goods, not less, but more than one hundred bushels of wheat. That being the case, there would obviously be no interest. It seems to me, therefore, that I am warranted in believing that the position taken in my former paper is still tenable, and, moreover, that that paper contained a valid criticism upon Professor Böhm-Bawerk's theory.

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